

More incentives to widen NPS net

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Mumbai: A complete overhaul of the New Pension Scheme (NPS) for individuals could be in the offing if recommendations of the committee headed by former Sebi chairman G N Bajpai are accepted. The recommendations are aimed at widening the reach of the NPS by improving financial incentives for distributors.

The panel has recommended roping in distributors like telecom companies and a revamp of the charge structure in order to draw retail interest in the NPS. The panel has also recommended that some of the existing flat rates be replaced with an ad-valorem charge structure to make it fairer to very small savers in the unorganized sector. The report was handed over to PFRDA chairman Yogesh Agarwal by Bajpai on Friday.

NPS was originally floated to manage the pension funds of new government employees who joined after January 2004. In 2009, the scheme was thrown open to the general population. It was expected that individuals in the unorganized sector would take advantage of the scheme, given its almost nonexistent fund management charges. The report has made the observation that financial products in India are sold and seldom bought. The report points out that the same scheme which was designed to manage the mandatory pension scheme for government employees was replicated for voluntary pensions.

In its present form, the fund management charges under the NPS are 0.0009% of the asset under management. Point of presence participants, who collect payments under the scheme, are paid a flat charge of Rs 40 for opening the account and per transaction fee of Rs 20. There is no fee paid to any intermediary for marketing the scheme. The maximum revenue that a point of presence participant can expect from one account is Rs 100 in the first year and Rs 80 in subsequent years.

Although the variable costs under the NPS are very low, the NPS has fixed fees for some transactions. For instance, opening an account would incur a one time cost of Rs 50 and an annual maintenance charges of Rs 350 and some other small fixed costs which all add up to less than Rs 500 a year. The variable costs include an annual custodian charge of 0.0075-.05% of the fund and the .0009% fund management charge.

